



## ANNUAL STATEMENT FOR THE YEAR 2008 OF THE HumanaDental Insurance Company

# Management's Discussion and Analysis

### Management's Discussion and Analysis of HumanaDental Insurance Company As of December 31, 2008 Insurer's Business

HumanaDental Insurance Company ("The Company") is a wholly owned subsidiary of HumanaDental, Inc. ("HDI") which in turn is a wholly-owned subsidiary of Humana Inc. ("Humana"). The Company, which is domiciled in Wisconsin, underwrites and retains dental business in most of the 49 states where the company is licensed. In addition, the Company is the direct writer of a runoff book of Life, Annuity and Health business which is 100% ceded to the Company's previous parent company, Protective Insurance Company.

#### Results of Operations

The Company's total premium revenues decreased 1.8 percent over prior year, resulting primarily from a decrease in average membership partially offset by increases in premium rates.

The medical loss ratio for the years ended December 31, 2008 and 2007 were 67.1 percent and 68.3 percent, respectively. This loss experience is in line with that recorded in the last several years.

General administrative expenses decreased by 4.6 percent, primarily due to an increase in income from administrative services only contracts. This product has experienced a 20.3 percent increase in average membership from the prior year.

During 2008, we recognized other-than-temporary impairments of \$1.9 million. These impairments relate to declines in values of securities, primarily associated with the financial services industry. We continuously review our investment portfolios. Given current market conditions, there is a continuing risk that further declines in fair value may occur and additional material realized losses from sales or other-than-temporary impairments may be recorded in future periods.

#### Cash Flow and Liquidity

Given the Company predominately writes short tailed health business, the investment portfolio is conservatively managed with an emphasis on high quality, liquid holdings which provide a reasonable return. The \$2.5 million decrease in cash and short-term investments during 2008 was primarily due to a \$25.0 million dividend paid to the parent and a \$2.0 million increase in receivable from affiliates, partially offset by the \$25.6 million favorable cash from operations.

The Company has a management contract with Humana and other related parties whereby the Company is provided with medical and executive management, information systems, claims processing, billing and enrollment, and telemarketing and other services as required by the Company. Management fees charged to operations for the years ended December 31, 2008 and 2007 were approximately \$7.7 and \$8.4 million, respectively.

As a part of this agreement, Humana makes cash disbursements on behalf of the Company which includes, but is not limited to, claims payments, general and administrative expenses, commissions and payroll. Humana is reimbursed by the Company weekly, based upon historical pattern of amounts and timing. Each month, these estimates are adjusted to ultimately settle upon actual disbursements made on behalf of the Company. The Company continues to be primarily liable for any outstanding payments made on behalf of the Company, should Humana not be able to fulfill its obligations.

#### Cautionary Statements

This document includes both historical and forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, trends and uncertainties. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, including, among other things, the information discussed below. In making these statements, we are not undertaking to address or update each factor in future filings or



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communications regarding our business or results. Our business is highly complicated, regulated and competitive with many different factors affecting results.

Due to the nature of its business, the Company is or may become subject to pending or threatened litigation or other legal actions relating to the failure to provide or pay for health insurance coverage or other benefits, poor outcomes for care delivered or arranged under the Company’s programs, nonacceptance or termination of providers, failure to return withheld amounts from provider compensation, and failure to disclose network discounts and various provider payment arrangements and claims relating to contract performance. Recent court decisions and legislative activity may increase the Company’s exposure for any of these types of claims.

Management does not believe that any pending or threatened legal actions against the Company or audits by agencies will have a material adverse effect on the Company’s financial position, results of operations, or cash flows. However, the likelihood or outcome of current or future suits cannot be accurately predicted with certainty. In addition, the potential for increased liability for medical negligence arising from claims adjudication, along with increased litigation that has accompanied the negative publicity and public perception of our industry, adds to this uncertainty. Therefore, such legal actions and government audits and investigations could have a material adverse affect on the Company’s financial position, results of operations or cash flows.